

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Alarcon Analyst: Roger Lackey Bill Number: SB 1568Related Bills: SB 511 (99/00) Telephone: 845-3627 Introduced Date: 02-18-2000Attorney: Patrick Kusiak Sponsor: _____**SUBJECT:** Enterprise Zone Designation Limits/Provides for Designation of Unspecified NumberSUMMARY

Under the Government Code, this bill would increase the number of enterprise zones that may be designated from 39 to an unspecified number.

EFFECTIVE DATE

This bill would become effective January 1, 2001.

PROGRAM HISTORY/BACKGROUND

California has four types of economic development areas that have similar tax incentives:

- Enterprise Zones,
- Local Agency Military Base Recovery Areas (LAMBRA),
- Targeted Tax Area (TTA), and
- Manufacturing Enhancement Areas (MEA)

The following table shows the tax incentives available to each of the economic development areas.

Types of Incentives	EZ	LAMBRA	TTA	MEA
Sales or Use Tax Credit	X	X	X	
Hiring Credit	X	X	X	X
Employee Wage Credit	X			
Business Expense Deduction	X	X	X	
Net Interest Deduction	X			
Net Operating Loss	X	X	X	

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director

Date

Gerald H. Goldberg

3/10/00

SPECIFIC FINDINGS

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an enterprise zone. Using specified criteria, the Trade and Commerce Agency (TCA) designates enterprise zones from the applications received from the governing bodies. Enterprise zones are designated for 15 years, except enterprise zones meeting certain criteria may be extended to 20 years. TCA has designated each of the 39 enterprise zones authorized under existing law. When an enterprise zone expires, TCA is authorized to designate another in its place or to re-designate the expiring zone, to maintain a maximum total of 39 enterprise zones.

In addition, the TCA has the authority to revoke a designation (de-designate) of an enterprise zone. TCA may audit enterprise zone programs and determine whether the results of an enterprise zone were superior, pass, or fail. Any business located in a de-designated zone that has elected to avail itself of any state tax incentive for any taxable or income year prior to dedesignation may continue to avail itself of those tax incentives for a period equal to the remaining life of the enterprise zone, provided the business otherwise is still eligible for those incentives. Once an enterprise zone is de-designated, TCA may designate another enterprise zone in its place to maintain a maximum total of 39 enterprise zones, even though taxpayers in the de-designated zone may continue to use the tax incentives that the taxpayers qualified for prior to de-designation.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within an enterprise zone. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, a wage credit may be claimed by specified employees of businesses operating within an enterprise zone.

This bill would increase the total number of enterprise zones that may be designated at any one time from a maximum of 39 to an unspecified number.

Implementation Considerations

Incorporating the new zones as they are designated by TCA would not significantly impact the department.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Based on departmental data for tax year 1996, the total revenue loss for the existing 39 enterprise zones was \$39 million (approximately \$1 million on average per zone).

It is not possible to predict in advance the number and location of additional enterprise zones that may be designated in any given year, the number of businesses that would purchase qualified property, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming such tax benefits.

BOARD POSITION

Pending.